

## Message Text

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PAGE 01 HONG K 07226 270750Z

53

ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01

TAR-01 COME-00 FEAE-00 INT-05 FPC-01 AGR-05 FRB-03

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 5605

INFO USLO PEKING

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E.O. 11652: N/A

TAGS: ETRD, CH, US

SUBJ: PRC CONCERN ABOUT MFN AND THE TRADE IMBALANCE

SUMMARY. A CHINESE TRADE OFFICIAL IN HONG KONG HAS VOICED TO A CONGEN OFFICER PRC DISSATISFACTION WITH "UNEQUAL TREATMENT" UNDER PRESENT U.S. TARIFFS, SPOKEN OF PRC UNHAPPINESS WITH THE TRADE IMBALNCE, AND SAID THAT UNDER THE CIRCUMSTANCES IT IS NOT FEASIBLE FOR THE PRC TO INCREASE PURCHASES OF US GOODS. END SUMMARY.

1. DURING JUNE 12 CALL BY CONGEN OFFICER AT CHINA RESOURCES COMPANY (CRC) ON ANOTHER MATTER, CRC GENERAL SECRETARY KUO LIEN (STC: 6753/3425) USED A POLITE REMARK ABOUT TRADE AS THE OCCASION FOR A LONG DISCUSSION OF TARIFF BARRIERS AND MFN . KUO SAID THAT ALTHOUGH THERE HAD BEEN PROGRESS IN TRADE MATTERS THERE WERE CERTAIN ARTIFICAL BARRIERS" WHICH HINDERED FURTHER GROWTH BETWEEN OUR TWO COUNTRIES. HE WENT ON TO SPEAK OF PRC DISSATISFACTION WITH "UNEQUAL TREATMENT" RESULTING FROM THE PRESENT US TARIFF SYSTEM. HE ALSO SAID THAT THE

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PAGE 02 HONG K 07226 270750Z

PRC WAS UNHAPPY WITH THE BALANCE OF PAYMENTS IN US-PRC

TRADE, WHICH IS AT PRESENT EXTREMELY UNFAVORABLE TO THE PRC.

2. CONGEN OFFICER WONDERED ALOUD WHEHTER THE PRC MIGHT PLAN TO USE IT SEXPANDING OIL EXPORTS TO RIGHT THE PRESENT TRADE IMBALANCE. IN THIS CONNECTION HE MENTIONED NEWSPAPER REPORTS TO THE EFFECT THAT IN A FEW YEARS THE PRC OIL PRODUCTION WOULD INCREASE GREATLY, PERHAPS APPROACHING MIDDLE EAST LEVELS. KUO SAID THIS WAS TRUE AND THAT THE PRC HAD GREAT HOPES OF DEVELOPING OIL RESOURCES. HE NOTED, HOWEVER, THAT THIS INVOLVED DEVELOPMENT AND WOULD REQUIRE YEARS.

3. BOTH IN THIS CONTEXT AND THROUGHOUT THE CONVERSATION KUO CONTINUALLY REITERATED THAT CHINA DESIRED INCREASED TRADE AND HE PERSISTENTLY RETURNED TO THE POINT THAT U.S. TARIFF BARRIERS WERE THE PRINCIPAL PROBLEM IN EXPANDING TRADE WITH THE U.S. KUO ALLOWED THAT THERE WERE MANY PRODUCTS WHICH THE PRC NEEDED TO IMPORT AND THAT THE U.S. PRODUCED MANY SUCH ITEMS. WITH THE PRESENT TARIFF SYSTEM, HOWEVER, IT WAS SIMPLY NOT FEASIBLE, HE SAID, FOR THE PRC TO INCREASE PURCHASES FROM THE U.S. KUO REMARKED THAT THERE ARE ALTERNATIVE SOURES OF SUPPLY AND THAT PRESENT ECONOMIC CIRCUMSTANCES, I.E., THE TARIFFS, MADE THESE SOURCES (SUCH AS EUROPE) COMPARATIVELY MORE COMPETITIVE. KUO EMPHASIZED THE "GREAT CONCERN" WITH WHICH HIS GOVERNMENT VIEWED THESE "ARTIFICIAL BARRIERS"-- A TERM HE REPEATED SEVERAL TIMES IN ENGLISH.

4. CONGEN OFFICER NOTED THAT OUR TARIFF SYSTEM AND ITS REVISION WAS NOT A SIMPLE MATTER. HE POINTED OUT THAT THERE WERE A NUMBER OF FACTORS TO CONSIDER INCLUDING THE CONGRESS AND SPECIAL INTEREST GROUPS. KUO SAID THAT WHILE THIS WAS TRUE IT WAS HIS UNDERSTANDING THAT MANY IN THE U.S.--SUCH AS BUSINESSMEN AND THE NATIONAL COUNCIL FOR U.S.-CHINA TRADE-- DESIRED THEIR COUNTRY TO EXPAND THE NUMBER OF NATIONS INCLUDED IN THE MOST FAVORED NATIONS CATAGORY. IN THIS CONNECTION, HE MENTIONED MEL SEARLS AND THE NATIONAL COUNCIL WHICH MR. SEARLS WILL SOON "HEAD", AS HE PUT IT. THIS WAS A SUBJECT THAT THE PRC WAS FOLLOWING WITH "GREAT INTEREST", SAID KUO. IN ANY CASE, HE SAID, IT WAS A DECISION THAT WOULD BE MADE BY THE U.S. GOVERNMENT.

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PAGE 03 HONG K 07226 270750Z

5. COMMENT. WE ASSUME THAT NO PRC OFFICIAL WOULD GO ON AT SUCH LENGTH ON THIS SUBJECT UNLESS HE KNEW THAT HIS REMARKS REFLECTED THE CURRENT LINE. KUO'S REMARKS CONTAINED NOTHING ESSENTIALLY NEW, BUT THIS IS THE FIRST TIME THAT A CONGEN OFFICER HAS BEEN TREATED TO SUCH A DISQUISITION ON THE TRADE IMBALANCE AND MFN. WHILE KUO'S REMAKRS UNDERLINE THE PRC'S CONCERNS AND ITS DESIRE TO INCREASE ITS EXPORTS TO THE U.S.,

THERE IS NOTHING IN HIS REMAARKS TO INDICATE PRC WILLINGNESS  
TO NEGOTIATE, OR EVEN DISCUSS, TARIFFS OR RELATED MATTERS. KUO  
CLEARLY IMPLIED THAT REVISION OF THE U.S. TARIFF WAS A WHOLLY  
AMERICAN PROBLEM IN WHICH THE PRC PLAYED NO PART.  
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**Disposition Approved on Date:**  
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**To:** STATE  
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